



DATE ISSUED: August 2, 2006 REPORT NO. CCDC-06-04

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of August 8, 2006

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Southern Hotel (1159 Sixth Avenue) – Owner Participation
Agreement with Southern Hotel, LLC. – Core Redevelopment
District of the Expansion Sub Area of the Centre City
Redevelopment Project

COUNCIL DISTRICT(S): 2

REFERENCE: Site Plan
Rehabilitation Specifications
KMA Financial Analysis
Owner Participation Agreement with Southern Hotel, LLC

STAFF CONTACT: Dale Royal, Senior Project Manager (619) 533-7108

REQUESTED ACTION:

Redevelopment Agency approval of the Owner Participation Agreement between the Redevelopment Agency of the City of San Diego and Southern Hotel LLC.

STAFF RECOMMENDATION:

Staff recommends Redevelopment Agency approval of the proposed Owner Participation Agreement (“OPA”) between the Redevelopment Agency of the City of San Diego (“Agency”) and Southern Hotel, LLC (“Owner) to:

- Secure very-low income affordability covenants; and
- Require that the owner renovate the residential and common areas at the Southern Hotel located at 1159 Sixth Avenue in the Core Redevelopment District of the Expansion Sub Area of the Centre City Redevelopment Project.

SUMMARY:

The Southern Hotel is a five-story commercial building located on the southeast corner of Sixth Avenue and “B” Street in downtown’s Core District (Exhibit A – Site Plan). The building was constructed in 1917 and is designated as a local historic structure. Ground-floor tenants include: La Gran Tapa Spanish restaurant; Sixth Avenue Bistro; Mama Gucci’s Italian restaurant; and

Super Loco Taco Mexican restaurant. The building's upper floors are operated as a residential hotel with 89 single-room occupancy ("SRO") units.

The rooms at the Southern Hotel, like many other SRO's, are occupied by students, seniors, and downtown workers representing occupations such as housekeepers, waiters, construction workers, and security guards. Staff has been involved in numerous discussions with interest groups about preserving and expanding the supply of SRO units in downtown. In response, Centre City Development Corporation ("CCDC") has initiated an effort to secure long-term affordability restrictions in older, historic SRO buildings.

FISCAL CONSIDERATIONS:

Funds are available in the amount of \$1,625,000 from the Fiscal Year 2007 Centre City Low and Moderate Income Housing Fund. The proposed OPA provides for the Agency to record 55-year very-low income affordability covenants on 50 units within the Southern Hotel. In addition, the Owner would agree to renovate the common areas, bathroom and shower facilities, and all 89 SRO units in the building (Exhibit B – Rehabilitation Specifications).

Keyser Marston Associates ("KMA"), economic consultants to the Agency, assisted staff in developing the recommendation by analyzing the SRO rental market and cash flow assumptions. The amount of proposed Agency assistance reflects an estimate of the gap between market rate and mixed-income cash flows over 55 years with the proposed mix of 39 market rate and 50 income-restricted units. It has been determined that it would not be feasible to restrict the property beyond 55 years in light of the amount of financial assistance being provided. The analysis is attached as Exhibit C - KMA Financial Analysis. The following is a summary of essential terms and conditions of the proposed OPA (Exhibit D):

- The Agency will secure affordability covenants for \$1,625,000 for 55 year, very-low income rent restrictions on 50 units as follows:

<u>Unit Type</u>	<u>Maximum Income</u>	<u>Maximum Rent (HCD 2005)</u>
18 Small Size	@ 40% AMI (\$17,760 for 1 person)	30% of 40% AMI = \$444/mo
32 Large Size	@ 45% AMI (\$19,980 for 1 person)	30% of 45% AMI = \$500/mo

- The Owner will renovate all SRO units, common areas, and bathroom and shower facilities in the building in accordance with Rehabilitation Specifications and Schedule of Performance to be included in the OPA;
- The Agency's \$1,625,000 will be provided to the Owner by a payment of \$1,425,000 at the time the affordability covenants are recorded on the Southern Hotel property, with the balance of \$200,000 paid upon completion of the building renovation in accordance with plans approved by CCDC.
- The Agency's participation is structured as a forgivable loan with no payments due as long as the Owner complies with the affordability restrictions. The Agency Note will be recorded in junior position to the senior lender's Deed of Trust on the property. The senior lender shall subordinate its Deed of Trust to the affordability restrictions, which would preserve the Agency's restrictions in the event of a foreclosure.

PREVIOUS AGENCY, and/or COMMITTEE ACTIONS:

On May 18, 2005, the Centre City Advisory Committee voted 23 - 0, and the Project Area Committee voted 20 - 0 in favor of the proposed OPA.

On June 22, 2005, the CCDC Board of Directors voted unanimously in favor of the proposed OPA.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On January 19, 2005, the City Council Committee on Land Use and Housing ("LU&H") directed staff to develop a comprehensive work plan to address the need for both construction and preservation of SRO rooms. One of the ideas supported by LU&H was to provide public funds to assist owners to repair and preserve older buildings.

On April 14, 2005, at the Downtown Affordable Housing Study Session sponsored by CCDC, Board members urged staff to start identifying opportunities to utilize the Agency's Low and Moderate Income Housing Fund to secure rent restrictions and improve SRO buildings. The Southern Hotel is the first building, in hopefully a series, to be considered in this new initiative to work with SRO owners to preserve affordability and improve their buildings.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

ROLE/FIRM	CONTACT	OWNED BY
Building owner	James Hughes, Manager	Southern Hotel, LLC James Hughes Irwin S. Weinhaus (Privately Owned)

Housing Impact - The proposed project would expand the supply of affordable housing by preserving SRO units which provide housing opportunities for persons who otherwise would not qualify for standard rental apartments due to credit problems or limited income, and by securing long-term affordability for very-low income persons. The project may serve as a demonstration and incentive for other SRO owners to preserve and improve their properties with long-term affordability.

Over the last five years, about 800 of the approximately 5,000 SRO units located in downtown have been demolished or closed to facilitate the expansion of the Federal Courthouse and other development projects. Local regulations intended to require one-for-one replacement of demolished or converted SRO units have been difficult to enforce due to overriding exemptions under state and federal laws.

The proposed expenditure of funds would result in an Agency subsidy of \$32,500 per affordable unit, which compares very favorably to the potential cost for new construction.

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The proposed investment of Agency funds will add 50 very-low income units to count towards the Agency's affordable housing production requirements.

Environmental Impact - This activity is categorically exempt from CEQA pursuant to State CEQA Guidelines Section 15301 (existing structure).

Respectfully submitted,

Dale Royal
Senior Project Manager

Nancy C. Graham
President

Attachments:

Exhibit A – Site Plan

Exhibit B – Rehabilitation Specifications

Exhibit C – KMA Financial Analysis

Exhibit D – Owner Participation Agreement with Southern Hotel, LLC

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